

Investment Office Roadmap

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Refining Our Current Roadmap

- Builds on 2010 Roadmap
- Identifies 6 strategic priorities
- Clarifies vision by mapping where we currently are to where we want to be
- Integrates target operating model and risk framework

Investment Office “From-To” Vision

<u>FROM</u>	<u>TO</u>
All risks not transparent and understood	All risk understood and managed
Lack of common systems, processes and analytics	Clear target operating model – strong operational data, governance, systems, and controls
Tactical, asset class-based approaches to building strengths and competencies	Clear sense of our strengths and competencies we want to develop
Bottom up approach to value creation	Integrated strategies for value creation that blend cross-asset class approaches
Inconsistent culture & employee experience	Consistent delivery of our unique value proposition to employees
Long-term, static allocation framework	More dynamic framework, responsive to market conditions
Inadequate reporting systems & data for effective cost management	Better expense tracking & reporting systems & improved cost management

Leads to our Purpose Statement....

To be the leading public investment organization in the world by engaging the talents of our people and partners in executing innovative and sustainable investment strategies and products that generate superior risk-adjusted returns to enhance the financial security for all who participate in our system.

Roadmap Strategic Priorities

- Achieve Investment Performance targets
- Establish new Capital Allocation framework
- Strengthen Risk Management
- Strengthen Organization, Systems, and Controls
- Improve Cost Effectiveness
- Enhance Talent Management

Investment Performance

Objective: *Deliver consistent risk-adjusted investment returns*

Cross Asset-Class Initiatives

- Deliver target investment performance
- Standardize processes for external manager and investment partner selection, negotiation, and monitoring
- Enhance investment performance attribution & reporting
- Outperform relevant peers on return per unit of cost

Investment Performance, cont.

Program Initiatives

- *Real Estate & Infrastructure* - Implement Phase 1 of 2011 Strategic Plan
- *AIM* – Continue to streamline and optimize portfolio and implement dedicated co-investment strategy
- *Fixed Income* - In source short duration fund and review currency overlay strategy
- *Global Equity* - Implement capital allocation model and finalize ESG strategy
- *Emerging Manager* - Develop total fund emerging manager and diversity outreach plan and improve reporting to the Investment Committee
- *Affiliated Programs, Global Equity, Inflation Linked Assets* - Implement organization structure changes

Capital Allocation

Objective: *Continue to evolve capital allocation framework from traditional asset based to alternative, more dynamic, allocation mechanisms*

- Define Investment Office investment beliefs
- Develop factor based asset allocation framework
- Standardize pricing models for private asset classes
- Obtain Investment Committee approval for new asset allocations:
 - ✓ Long-term Care and CERBT Funds
 - ✓ JRS and the LRS Funds

Risk Management

Investment Risk Objective: *Establish a comprehensive risk management system & practices to measure, manage & communicate investment risks to enhance risk adjusted returns of the fund*

- Implement total fund investment risk management system
- Implement fund and asset class risk budgeting and monitoring
- Deliver enhanced capabilities for performance & risk attribution

Risk Management, cont.

Operating Risk Objective: *Reduce operational risk by developing a risk aware culture with an integrated governance structure, clear metrics, & robust operational risk management processes*

- Implement operating risk management framework
 - Event tracking, error escalation, root cause analysis, risk assessment
- Mitigate top five risks in the Investment Office Risk Heat Map
- Implement operating risk evaluation process for new investment ideas

Organization Systems, & Controls

Objective: *Design & implement a robust, integrated operating model that minimizes complexity, improves transparency, & strengthens processes, systems, governance & controls*

- Implement 3 key process/technology solutions
 - Master custody and fund accounting services (achieve a hard daily close)
 - Fund-wide investment risk management system
 - Public portfolio construction/management system including common investment book of record
- Develop robust control functions – performance & risk attribution, asset valuation/pricing, IBOR maintenance, portfolio & fund level cash forecasting, data management
- Strengthen investment policy compliance monitoring
- Implement recommendations from “Contract Workout”

Cost Effectiveness

Objective: *Enhance cost effectiveness of the investment program to improve net returns on assets*

- Continue fee reduction initiatives
- Evaluate and select a tool for financial reporting to track and manage expenses
- Incorporate enhanced financial reporting at the asset class and total fund level
- Outperform relevant peers on return per unit of cost

Talent Management

Objective: *Enhance ability to recruit, develop & retain a highly skilled, diverse & motivated team to ensure the success of the Investment Office*

- More systematic recruitment and development of talent
- Develop risk budgeting capabilities to incorporate into 2012-13 compensation plans
- Implement Investment Office specific compliance training
- Improve results on the Investment Office organizational health index related to process and control
- Enhance performance and compensation calibration process

Investment Office Roadmap



Strategic Levers

- Fundamental – develop and implement target operating model
- Skills – improve how we create value
- Results – aim for focused, incremental, tangible wins to build support and accelerate progress

Next Steps: Reporting, Monitoring & Adapting

- Monitor milestones and progress
- Report status and accomplishments
- Adapt and account for lessons learned